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STATE PASS USTR FOR CMILLER AND PCOLEMAN
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TAGS: ETRD EINV ECON KTEX NI
SUBJECT: AGOA AND NIGERIA: CAN ITS TEXTILE FIRMS STILL BENEFIT?

REF: ABUJA 1810

¶1. Summary. Textile provisions of the Africa Growth and Opportunity Act (AGOA) encourage millions of dollars in foreign investment, create thousands of new jobs and boost exports across Africa, except in Nigeria. Sub-Saharan Africa's second largest economy has not taken advantage of AGOA's duty-free textile opportunities. A key impediment is the inadequate safeguards against transshipment by ineligible countries. Legislation to establish an appropriate export visa regime remains stalled in the National Assembly. Even if the bill were passed, Nigeria's textile industry would still face problems of low productivity and poor infrastructure--especially poor transportation links and high energy costs. Nigeria could still benefit from AGOA if firms were to increase their competitiveness quickly, possibly through free trade zones that might encourage local industries to pool resources and attract desperately needed foreign expertise and capital. Unless Nigeria moves quickly, it may fall farther behind as ot
her African nations race to develop their textile industries in anticipation of the January 1, 2004, requirement that AGOA-eligible garments be assembled from textiles made in the United State or other AGOA countries. End Summary.

Assembly's Inaction

¶2. Nigeria is ineligible for AGOA's duty-free textile provisions at present because it lacks safeguards against transshipment. A bill providing for the requisite safeguards is stalled before the National Assembly. House Finance Committee Chair Mohammed Sanusi Daggash told Emboff early in 2002 that legislation would be enacted in June 2002 (reftel); however, eligibility for the textile provisions has not been a priority, partly because members misunderstand AGOA's potential benefits. While industry organizations have often expressed their frustration publicly about the legislature's inaction, none has engaged in effective lobbying to inform and persuade legislators about the missed opportunities.

¶3. Comment. Since 1999, the National Assembly has passed few non-budget bills. The National Assembly has a very limited capacity to formulate economic policy owing to lack of understanding of basic economic principles and little will to legislate serious economic reform. For many members, consolidating their gains as parliamentarians and preparing for elections have taken precedence over reviving Nigeria's stagnant non-oil sector. Now that the legislators' attention is firmly focused on the 2003 elections, it is unlikely a bill will be passed until next summer at the earliest. End Comment.

Problems and Potential

¶4. Even if legislation were passed today, Nigerian firms would need help to penetrate the American market. Once a significant source of employment and foreign exchange, the textile industry is in poor condition. It suffers from decaying manufacturing plants and declining capacity, which have driven costs up and competitiveness down. Nigeria's manufacturers must overcome these problems and a dysfunctional infrastructure to produce low-cost, high-quality goods. The frequency of Nigeria's power outages is the most costly infrastructure problem, forcing firms to rely on expensive generators. This constitutes an enormous disadvantage for textile manufacturers who have significantly greater demand for electricity than do garment assemblers. The apparel sector is nevertheless practically non-existent,

and the textile industry operates at only thirty- percent capacity. Cheaper imports from China and India have flooded the country and driven many Nigerian firms out of business.

¶5. Although the industry is in dire straits, hope is not beyond reason. According to a report published by American textile experts (reftel), Nigeria could become a major textile and garment exporter under AGOA. Cotton is grown locally and the country has an abundance of cheap labor. While apparel manufacturing is merely a cottage industry today, new factories could draw on the existing labor pool. If textile firms were to become more competitive, they could provide inputs not only to domestic firms but also to other African countries, especially after 2004 when the AGOA provisions allowing less developed countries to use inputs from elsewhere expire. Nigeria's challenge is to transform this potential into a vibrant export industry.

Government Efforts

¶6. While Nigeria's public and private sectors constantly bemoan the industry's decline, both have done relatively little to address the structural deficiencies that make Nigerian firms non-competitive. Beyond the marginal improvement in power generation since 1999, the only tangible action the government has taken has been to erect barriers to trade. In 2002, in response to pleas by textile unions and manufacturers, the government imposed a temporary import ban on printed fabric (since replaced by quality and price controls). Beyond protectionism, government efforts have produced many reports but few results.

¶7. In late 2002, President Obasanjo established a committee to revive the textile industry. The committee's mandate called for a "blue-print" to restore the position the industry held during the mid-1980s. The committee comprised representatives from federal ministries, state governments, professional associations, unions, a few private manufacturers, and the United Nations Industrial Development Organization (UNIDO). In its final report released in October 2002 the committee recommended ways of boosting exports to Europe and the United States, all with a view to meeting Obasanjo's goal of exporting one billion USD worth of textiles a year by 2006. Its recommendations called for a tightening up of import restrictions and penalties to curb illegal imports, as well as measures to increase cotton production and improve the infrastructure.

¶8. Nigeria's Ministry of Commerce, in cooperation with the United States-Nigerian Development Institution (to which USAID has provided funding), has initiated the Nigerian Apparel and Footwear Project, which aims to bring the operations of selected Nigerian manufacturers to international standards. The initiative is an element of the GON's overall effort to increase non-oil exports to 500 million USD by the end of 2003. The Ministry of Industry is working with UNIDO on a "blue-print" to restructure and rehabilitate the textile and garment industry, with a specific focus on AGOA to stimulate production. UNIDO expects to complete the project by the end of 2003, at which time it hopes to provide the GON follow-up assistance to implement specific recommendations.

Private Sector Efforts

¶9. In terms of resuscitating the ailing textile industry, the private sector has done no better a job than the government. Private sector awareness is high, as evidenced by the frequent mention of AGOA at business seminars and in the media, but few firms understand the nuts and bolts of exporting under its provisions. To enlighten them, the Nigerian-American Chamber of Commerce will soon publish a "how to" manual outlining all the necessary steps for accessing the US market. However, while a few large firms (mainly subsidiaries of international conglomerates) have expressed serious interest in AGOA, many smaller firms are pessimistic about Nigeria's chances of becoming competitive and thus have shown little initiative to grasp the opportunities available.

¶10. An assertion by J.P. Olarewaju, Executive Director of the Nigerian Textile Manufacturers Association (NTMA), is a good example of the latter attitude. Olarewaju told Econoff in December that although AGOA seems like a great deal, most of

NTMA's members believe that they cannot manufacture high quality textiles or assemble garments to compete with other AGOA suppliers. Olarewaju said the major impediment to restructuring the industry is lack of capital since firms desperately need to upgrade and replace old machinery.

¶11. Econoff asked Olarewaju if Nigerian firms had approached Lebanese, Chinese or Indians investors already active in Africa for capital and expertise. Olarewaju replied derisively that these Asian businessmen are "merely traders" only interested in dumping textile products and hurting local firms. The NTMA recommends that Nigeria's government provide capital or lease machinery to private firms through the Bank of Industry. Olarewaju hopes that Nigerian firms will pool their resources and form cooperatives, and believes the government should spearhead such an initiative. He also hopes the government will perform market research so firms might have a better idea of the American market. (NOTE: USTR, PAS and ECON invited U.S. purchasing reps to tour Nigeria in 2000 and 2001. FCS, ECON and others have sent Nigerian delegations to the States as well. Purchasers (usually for deparment stores and chains that control 90 percent of the garment trade) can tell suppliers how to make desired products.)

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Comment: Are AGOA Benefits out of Reach?
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¶12. The problems of Nigeria's existing textile and garment industry are evident. The high cost of business associated with Nigeria's poor infrastructure, outdated technology, and stiff competition from cheap imports has propelled the industry into steep decline. While industry analysts agree on the problems, few offer feasible solutions or demonstrate leadership to implement them. At the moment, only a handful of manufacturers assemble apparel. Existing textile firms, which produce low quality African design prints, need to switch operations or upgrade existing machinery to produce inputs for world markets. Nigerian firms need to find ways to ship goods out in a timely manner. They must also achieve a reasonable cost structure, which should not be extremely difficult. To become globally competitive, Nigeria needs leadership to coordinate the industry's public and private sector activities in order to move forward.

¶13. The government has not demonstrated that it can devise and implement a plan that might make Nigeria more competitive for AGOA textiles. In general, Government action tends to hurt, not help, the manufacturing sector. Politicians spend more time squabbling over their own or their constituencies' access to easy oil money, than over ways to improve the infrastructure and create a good investment climate. State and local authorities impose heavy tax burdens on textile firms, as they are easier targets than the multitude of importers who sell goods from the privacy of their homes. While tariffs (the second largest source of revenue behind oil taxes and royalties is the preferred policy tool) offer little effective protection, tariffs encourage smuggling across Nigeria's porous borders, often through the complicity of corrupt customs officials.

¶14. Nigeria's government still has an indispensable role to play establishing the groundwork to sustain a successful domestic textile and apparel manufacturing industry. It needs to improve utilities, roads and ports. The government must change its policy direction and invest in economic reform. Having said this, private sector initiative is the key factor determining whether or not Nigeria will benefit from AGOA's textile provisions. As Nigeria falls farther and farther behind its African competitors, appropriate corrective government action becomes increasingly important. But groups like the NTMA must not wait for the government to do all the work.

¶15. Several Nigerian firms have links to international conglomerates and a few Nigerian entrepreneurs could compete in the American market under the right conditions. The most important would be a reduction in the cost of doing business, especially high production costs associated with the procurement of power generating, water provisioning, and telecommunications equipment to neutralize outages when public services fail. In the short term, companies can share utility costs by clustering in industrial parks or free trade zone (FTZ) like the existing site in Calabar and the planned site in Lagos. An FTZ offers added benefit in that zone administrators have authority to issue regulations independent of the federal government. By joining forces, firms could lobby FTZ authorities to quickly implement polices to help firms produce and ship products at a cost low

enough to be competitive.   Streamlined shipping and customs procedures could reduce the opportunities for corruption.

¶16. Many domestic firms claim that the highest cost is not associated with inadequate infrastructure but access to capital. However, according to the International Finance Corporation, the private sector arm of the World Bank, equity and debt financing is available in Nigeria. To be sure, the equity market is thin and debt financing is costly. But an equally important problem is that few entrepreneurs have sound business plans. By seeking help abroad, domestic firms could find not only much needed expertise for textile and apparel production but also additional sources of capital.

¶17. Nigeria's longstanding dependence on oil has drawn resources and energy away from the non-oil sector, rendering much of the manufacturing sector idle. The elite who have enjoyed easy access to oil revenue have had little incentive to plow resources into the non-oil sector. Nigeria has yet to orient itself to the global economy. Few firms or politicians understand the opportunities that exist or have demonstrated initiative to attract foreign direct investment. Nigeria might still benefit from AGOA, however, if the private sector quickly finds ways to improve its competitiveness by clustering and establishing ties with foreign investors. But if Nigeria's firms continue to sit back and wait for government action, AGOA's textile benefits will increasingly fall beyond their reach. End Comment.
HINSON-JONES